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Lockheed Chairman Prepares to Confront SEC Over Disclosing Payoff Recipients

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WASHINGTON—Lockheed Aircraft Corp. Chairman Robert W. Haack has been making the rounds at various federal agencies to prepare for a possible showdown with the Securities and Exchange Commission.

Mr. Haack says he's "scouting the terrain" in case there's a confrontation with the SEC about disclosing the names of government officials overseas who accepted \$22 million in payments from Lockheed between 1970 and mid-1975.

"I have trafficked with a lot of people in government," Mr. Haack says, explaining his many recent contacts in Washington. "I am looking for guidance."

Mr. Haack's immediate problem is how to handle a fat report describing the company's improper marketing practices that will be submitted to the Lockheed board today or tomorrow by a special review committee of independent directors. The seven-member panel was established under a consent decree settling an SEC suit which alleged that Lockheed had disguised the foreign payoffs in false financial statements.

The task of tracing Lockheed's questionable payments took a year, in part because the raw, unevaluated company files turned over to Special Counsel Arnold Bauman, a former federal judge, contained as many as 150 government names in 15 countries, including Japan, Italy, the Netherlands, Indonesia, Saudi Arabia, Iran, the Philippines and Colombia. In many cases, company consultants, supposedly acting as intermediaries, may have kept the cash.

"This has been a very thorough inquiry," says J. Wilson Newman, retired chairman of Dun & Bradstreet Cos., who headed the special review committee. "This is an opportunity for the corporation to get its house in order... the report will be interesting for its findings, and it will be interesting in areas where there are no findings." He wouldn't elaborate.

Must Decide by June 16

Mr. Haack and his fellow directors must decide by June 16 whether to run the business risk of publicizing the report's contents or to engage the SEC in legal battle to keep some payoff names confidential. The consent settlement permits Lockheed to apply for a judicial protective order to safeguard any details deemed "harmful to the interests of the corporation" or those that aren't "material" to investors under federal securities laws.

Besides seeking advice on whether to tell all or fight, Mr. Haack has asked Gerald Parsky, former Assistant Treasury Secretary for international affairs, to assess the possibility that oil-producing states in the Middle East, especially Saudi Arabia, might retaliate against the U.S. if any of their top officials are identified as bribe-takers in the Lockheed report. Mr. Parsky says he told Mr. Haack there isn't any basis to fear interruption of oil supplies. James Akins, former U.S. ambassador to Saudi Arabia, generally shares Mr. Parsky's judgment.

"My concern isn't just with Saudi Arabia, but with a list of countries as long as your arm," Mr. Haack says. "My concern is world-wide. I don't want to see our marketing efforts upset... In the last 12 to 15 months a lot of good things have happened to Lockheed. The company is fine right now. Our intentions are good. Why flog a dead horse? The important thing is what Lockheed is doing now, rather than who may or may not have done something wrong six years ago."

Travis E. Reed, Assistant Commerce Secretary for international business in the Ford administration, is another outsider whom Mr. Haack is consulting. Mr. Reed has the distinct impression that Mr. Haack has all but decided to seek confidentiality for parts of the report and he reluctantly confirms that Mr. Haack is particularly worried about the reaction in Saudi Arabia, a prime overseas customer.

"There's so much concern in the company that the contents of the report must be pretty rough," Mr. Reed says. According to one Lockheed forecast, naming names in the Middle East could endanger possibly \$2 billion in prospective sales.

More than half the \$202 million in commissions paid or committed by Lockheed since 1970 were earmarked for generating business in Saudi Arabia, and some of the commissions flowed as bribes into secret accounts in Switzerland and Liechtenstein for the stated benefits of Saudi officials.

Even before the payoff report was completed, however, Mr. Haack assured the government's Emergency Loan Guarantee Board that to his best knowledge nothing in it could impair Lockheed's "viability" or undermine the company's capacity to repay federally backed bank loans that currently total \$30 million, down from a high of \$245 million.

Furthermore, Brian Freeman, the board's secretary, says recent corporate developments have improved prospects that Lockheed's lenders will agree to end the government guarantee before its scheduled expiration in December.

Unclear, Complex Issue

If Lockheed does go to court over the disclosures, the nation's second-ranked defense contractor (behind General Dynamics Corp.) would be the first big bribe-giving concern to seek judicial protection from the SEC's determination to require disclosure of recipients in flagrant cases. The complex issue of what, in payoff cases, is "material" to investors, and thus must be disclosed, hasn't been fully litigated or even clearly defined.

In part, the company's prospects for keeping bribe-takers confidential could depend on the State Department's assessment of probable damage to U.S. foreign relations. "I'll confirm that there have been conversations with Lockheed alerting us to the possible foreign implications," says Mark Feldman, the department's deputy legal adviser. The agency obviously can't decide whether to intervene in any court proceeding until it has studied the payoff report, Mr. Feldman adds.

The department says it doesn't seek to protect any U.S. concern from the consequences of illicit conduct. But a government briefing paper says disclosures of foreign bribes "have caused serious injury to U.S. foreign relations."

"Many foreigners have been angered over unsubstantiated charges made against officials in their countries, whether specifically named or not," the paper says. "They have noted that the U.S. is a strong society that can handle this kind of a process but have suggested that other countries may be seriously damaged by it. They make the point that as a leader of the free world the U.S. should take into account the interests of its allies."

The Central Intelligence Agency is also tracking the impact of payoff disclosures with particular care. Last year, the CIA station chief in Rome sought an appointment with then-SEC Chairman Roderick Hills "to discuss the potential deleterious effect of Lockheed disclosures on the political fabric of Italy."

According to a government memo dated March 10, 1975, the station chief, identified as Rocky Stone, is a "personal friend" of Ovidio Lefebvre, a Lockheed consultant "on whom the current president of Italy strongly relies." Mr. Lefebvre has also been identified in Senate hearings as an intermediary for bribes to ranking political figures in Italy. The CIA denies that it encouraged U.S. corporations to funnel payments to friendly foreign politicians.